SOUTH AMERICAN MARKETS

By Charles M. Pepper,

Former Foreign Trade Adviser, Department of State, Washington, D. C.

The economic basis of the South American market is reciprocal trade. The southern continent in its variety of natural products, agricultural and mineral, which are wanted by the rest of the world, has an assured purchasing power. Conversely, it is a world market for numerous manufactured commodities, and for certain foodstuffs.

The chief mineral exports of South America are tin, copper, iron ore, gold and silver. In the economic terminology, the Chilean nitrates of soda or saltpetre also may be classed with the minerals. The chief tropical agricultural products are coffee, rubber, and cacao. These are supplemented by hardwoods, dye-woods, and various other forest products. The agricultural products of the temperate region, which comprises Argentina, Uruguay, Southern Brazil, Chile, and the high plateaus of other countries, are the cereals, beef and mutton, wool and hides. There is a constant world-demand for these commodities which is little influenced by competition from other sections.

Natural circumstances combine to make the South American countries, as a group, heavy buyers of iron and steel and kindred manufactured articles. Where the raw materials exist for a basic iron and steel industry they are too widely separated to be assembled.

Brazil has abundant manganese and enormous iron ore deposits three hundred miles from the coast, but no coal, except in a few localities where meager local deposits serve for domestic purposes. Chile has iron ore in the north, and lignite coal along the southern coast, but this is not suitable for blast furnaces, and the iron ore finds a more profitable market in Bethlehem than in Chile. Oil exists in northern Peru, and is utilized on some of the railways for fuel, but Peru has no iron ore and coal deposits capable of commercial development by being assembled at a single point, except at a vast expenditure for transportation facilities. Argentina has oil fields in the south, but no iron ore, copper, or coal.

The future will see a development of the latent water power in the Andes and elsewhere, and electrical industries will benefit by it, as the Peruvian smelters are now benefiting. But taken in the broad sense, South America, for at least half a century, may be considered as a non-manufacturing continent. It is, therefore, the natural market for manufactured commodities of foreign countries.

Mining machinery always will be in demand. So also will be agricultural machinery. The fertile prairies of Argentina are like the Mississippi Valley, but Argentina has not the raw material for manufacturing the semi-finished materials which have enabled an agricultural implement industry to grow up in the middle west.

The limitation of raw materials convenient for assembling at a common industrial center does not mean that there will be no manufacturing industries in the South American countries. These already exist, but they are of the lighter variety. For example, Peru years ago began to utilize part of her cotton crop in her own mills. Brazil is doing the same thing. Argentina in time will employ some of her hides and wool in domestic industries, such as leather and knit goods, as she is now using some of her wheat crop in her own flour mills. But Argentina will not make steel rails and locomotives for her extensive railway system. Nor will Brazil for her system.

The South American countries which have tropical agricultural products to export are natural buyers of some of the food products of the temperate zone. Though they have areas suitable for the cultivation of the cereals in the intermountain valleys and the highlands, these are of limited extent. Flour and packing house products are always in demand in these countries far in excess of the local supply.

With salient facts of this kind in mind, a general survey of South America as a market, and as a factor in world commerce, may be taken.

In a geographical way, as relates to commerce, South America may be divided into three regions. These are the Caribbean coast, extending from the Isthmus of Panama to the Guianas; the east coast, extending from the mouth of the Amazon to the Straits of Magellan; and the west coast, stretching from Panama to the Straits. By this method of grouping, the diversity of products,

which are the basis of exchange, and which furnish the purchasing power of the inhabitants, is established.

A glance at the map, and the parallels of latitude, shows that the Caribbean coast region produces almost entirely tropical commodities which are wanted in the temperate regions. Coffee, cacao or chocolate, some rubber from the interior river districts, bananas and other fruits, and dye-woods and hard-woods, are the chief export products. There are also some of the precious minerals.

The east coast and the territory back of it cover the region with by far the largest population and with the greatest variety of products, since both temperate and tropical are included. Brazil, for instance, is not only the leading source of the world's supply of coffee and an important source of rubber supply, but in the southern district the cereals are grown, and there is an expanding live-stock industry. Argentina and Uruguay, although politically separated, are identical as a producing region. The wonderful development of Argentina is almost entirely agricultural. The world is seeking its wheat and other cereals, its beef and mutton, and hides and wool, while Uruguay also is supplying wool and hides.

The total trade of the east coast countries in some years is seventy-five per cent of all that of South America. Rio Janeiro, with a population approaching 1,000,000, and Buenos Aires, with more than 1,600,000 inhabitants, are on the east coast. The increase of population through immigration is to be looked for in central and southern Brazil, Argentina, and Uruguay.

The physical geography of the west coast shows the great Andean mountain system with numerous chains and subsidiary ranges. This naturally suggests mineral wealth, and the trade of the west coast is based largely, though not entirely, on the mineral products. In addition to the minerals are the rubber, which comes in part from the Amazon affluents, the coffee, cacao and ivory nuts of Ecuador, the sugar, fine cotton and alpaca wool of Peru, as well as the cereals of the central valley of Chile. But the output of Chilean and Peruvian copper, Bolivian tin, silver from all the Andean countries, and the nitrate fertilizers of Chile, are the leading sources of purchasing power.

The normal foreign commerce of the South American countries exceeds $2,000,000,000 annually. This excludes the trade of the

countries among themselves, although in official reports this trade is given under the heading of foreign commerce.

Until the commercial and financial crisis, which preceded the world war, involved the South American countries, and was rendered more acute by the hostilities, the prospect was that the foreign commerce of the continent as a whole would mount without interruption to $2,500,000,000. That may be taken as the prospect after peace is restored. It also may be assumed that on a basis of $2,500,000,000 foreign commerce, the South American exports will apparently exceed the imports by $250,000,000 to $300,000,000, but in passing it may be said that there is no real balance of trade in favor of South America as a whole, since the remittances on European loans and European investments offset the excess of exports.

In analyzing South America as a market for the products of the United States, and the United States as a market for South American products, it is necessary to clear away some conspicuous errors. One error relates to geography. The Caribbean countries may be called contiguous. The Panama Canal makes the west coast an extension of our own Atlantic coast. There is, consequently, some geographical advantage to North American exporters. But, as has been shown, the mass of the South American population and the larger part of the commerce are in the east coast countries, and, geographically, the advantage of the United States in relation to them is small. Buenos Aires and Rio Janeiro, by the most feasible ocean routes, are little nearer to New York than to Genoa, Barcelona, Hamburg, and Southampton.

Nor must it be ignored that the streams of immigration which feed the population of the east coast countries are from Europe. The tide of immigrants from Italy and from Spain flows steadily into Southern Brazil and Argentina. Brazil is also freshened by the immigration from Portugal. Common language, customs, newspapers, and constant intercourse with the country of origin therefore give Europe a marked advantage in supplying consumers in the east coast countries.

Another conspicuous error, propagated from the stump during political compaigns, has been that our trade with the South American countries is very small because our tariff has not been liberal enough. The truth is that the vast bulk of South American products have been admitted into the United States free of duty for a

long period. Rubber, coffee, cacao, tropical fruits, such as bananas, and hard-woods, have paid no duty; nor have copper, tin, and nitrates.

Under the Dingley tariff and the tariffs that preceded it, not less than ninety-seven per cent of South American products were admitted free of duty, and in some years the average was greater. With some countries it was practically a hundred per cent, as was the case with Brazil. The Underwood tariff, by placing wool and cereals and meat products on the free lists, has brought up the percentage as related to Argentina, but it has not affected the general equation.

The drawback to increasing the trade of the United States with South America has been a home market which many manufacturers regarded as sufficient. A further drawback was the practice of dumping surplus products in the years when the home market was inactive. Both these conditions are now past, and cultivation of the South American market is to be looked on as part of our campaign for permanent foreign trade.

In a discussion of some of the principles which underlie trade with South America, and which are fundamental, it is annoying to have to turn to petty questions, such as packing, English catalogues, non-Spanish or non-Portuguese-speaking salesmen, and ignorance of local trade requirements and peculiarities. So much is written on these matters that they may be omitted here, with one exception. This exception is the peculiar requirements of the textile market.

The European war dislocated the textile market of Argentina which is worth $40,000,000 annually. Germany and Belgium were put entirely out of the business, and the English mills, on account of war conditions, were embarrassed. The United States could have had an immediate participation, which would have been a permanent participation in this market; but the cotton mills, although they had been given abundant information regarding the patterns which were wanted by Argentine consumers, were not in a position to enter the market, because they were not making the kind of cotton fabrics that the Argentine consumers liked. These Argentine consumers will not take cotton fabrics that do not suit them. All the homilies about the textile trade that awaits

the United States in Argentina will not change this fundamental fact.

The long credits required by South American importers have been an unquestionable drawback to the extension of trade with the United States. For years to come it will continue to be a drawback, but the situation is susceptible of amelioration. A compromise, or an approximation of credits, may be worked out, on the basis of the ninety-day draft on New York. The establishment of branch American banks makes this possible. It also overcomes the other serious handicaps that have existed. So much has been written about the lack of banking facilities that, since this deficiency is now in a way to be overcome, it does not need detailed discussion.

Two basic requirements must be heeded if the South American market for the products of the United States rises beyond the $125,000,000 to $150,000,000 limit which now measures it, and if the United States is to reap the full and legitimate advantage growing out of the dislocation in trade connections caused by the European war.

One is the encouragement which should be given American manufacturers and exporters to coöperate or combine, by means of selling organizations, in marketing their products. Competition of other countries can only be met by this means, and the South American market in all circumstances, and under all conditions, is essentially a competitive market, If our anti-trust laws make such combinations illegal, as is maintained, they should be amended. No amount of generalities will do away with the necessity of permitting coöperation or combination in the foreign market. It is a question of pooling South American trade.

Another fundamental proposition, and the most important of all in increasing trade with South America, is the investment of capital from the United States in loans and in construction and similar enterprises. The country, whose capital is invested in a South American country, is going to get the most of the contracts for materials used in construction enterprises, railway building, and the like, as well as the contracts for public improvements carried on by the governments. England's investments in Argentine railways, banks, and loans are the living evidence of this fact.

German investments in banks, and in commercial partnerships, are in further testimony to the efficacy of this plan.

The exhibit is before the United States. A beginning was made in the absorption of the Argentine loan. Participation in other South American loans and in investment enterprises should follow on an expanding scale. In proportion as it does, the trade of the United States with South America will expand.